

Sixth Annual Report

FOR THE YEAR ENDING DECEMBER THIRTY-FIRST, 1968

NUMAC OIL & GAS LTD.

BOARD OF DIRECTORS

Ralph A. Bard, Jr.	Executive	Chicago, Illinois
Lawrence L. Bell	Partner Richardson Securities of Canada	Toronto, Ontario
Hadley Case	President Felmont Oil Corporation	New York, N.Y.
James F. Jungé	President The Pitcairn Company	Jenkintown, Penn.
Alexander N. MacIver	Barrister and Solicitor	Edmonton, Alberta
William S. McGregor	President Numac Oil & Gas Ltd.	Edmonton, Alberta
Marshal Stearns	President T. A. Richardson & Co. Limited	Toronto, Ontario
Lloyd F. Stevens	Executive Vice-President Allpak Products Limited	London, Ontario

OFFICERS

President and Managing Director	William S. McGregor
Vice-President, Exploration	Gunnar Haugrud
Vice-President, Engineering	Donald F. Baker
Secretary and Vice-President, Lands and Contracts	C. R. S. Montgomery
Treasurer	Elmo C. Kellam
Assistant Secretary	Alexander N. MacIver

HEAD OFFICE

11055 - 107th Street, Edmonton, Alberta

REGISTRAR and TRANSFER AGENT

The Royal Trust Company
Edmonton, Montreal, Toronto

AUDITORS

Winspear, Higgins, Stevenson and Doane
Edmonton, Alberta

SOLICITORS

Jackson, Arlette & MacIver
Edmonton, Alberta

LISTING

The Toronto Stock Exchange

AR18

Interim Report

for

of

NUMAC OIL & GAS LTD.

11055 - 107 ST. • EDMONTON • ALBERTA • CANADA

For Six Months
Ended June 30, 1968



COMMERCIAL PRINTERS LTD., EDMONTON
LITHOGRAPHED IN CANADA

INTERIM REPORT

NUMAC OIL & GAS LTD.

TO THE SHAREHOLDERS

The first half of 1968 was probably the most significant six month period in Numac's five year history. Income amounted to \$547,957, a gain of 142.6% over the equivalent 1967 period. Working capital as of June 30, 1968 was \$2,728,871 and the Company remained debt free. It should be noted that the substantial increase in working capital was brought about by the exercising of outstanding Share Purchase Warrants which netted the Treasury \$2,165,471. Numac's share capital position now stands at 3,743,225 shares issued.

Since January 1st, two dual-zone wells were drilled at Zama Lake and an excellent Granite Wash oil well was placed on production in Red Earth. Selective Crown acreage was purchased in these and other areas and wells are now drilling or planned on certain of these parcels. Inclusion of Company parcels in units and secondary recovery projects and the completion of the new wells has brought about an increase of proven and probable oil reserves from 6,862,000 to 8,650,000 barrels. Exploration on Numac's uranium properties is again proceeding at an accelerated pace with diamond drilling programs under way during this summer season in four main areas. As of June 30, 1968, Numac's oil, gas and mineral interests totalled 1,698,121 acres.

In addition to the above, we are pleased to report that two directors were added to Numac's Board, namely Mr. James F. Jungé, President of The Pitcairn Company, Jenkintown, Pennsylvania and Mr. Lloyd F. Stevens, Executive Vice-President of Allpak Products Limited, London, Ontario. It is gratifying to have these capable men on Numac's Board and we expect their counsel will be valuable to the progress of Company affairs.

OIL AND GAS ACTIVITIES

Numac participated in the drilling of two dual-zone wells in ZAMA LAKE during the first half of 1968. One, located in Lsd 3-8-116-5 W6M on a half section purchased at the January, 1968 Crown Lease sale, was completed in the Zama and Keg River oil zones and is now on steady production. The second well has just been drilled in Lsd 12-10-117-4 W6M on a 320 acre parcel acquired at the April, 1968 Crown sale and is being completed as a Keg River oil well. This well also has a good Sulphur Point gas zone which will not be completed until a market is available. Numac now holds varied interests in 22 quarter sections in the Zama Lake area and has participated in 6 exploratory wells. Of these, one test was dry while 5 were successes, 3 of which are dual-zone completions. In RED EARTH, the Granite Wash oil well in Lsd 4-24-87-9 W5M (which was referred to in our Fifth Annual Report) is now on steady production. Because of this producer, extra acreage has been added to the Company's surrounding production spacing block resulting in production increases.

The well precipitated acquisition at the January Crown Lease sale of the adjoining half section on which a test well is now drilling. Plans are presently being laid for the drilling of further tests in ZAMA LAKE, RED EARTH, UTI-KUMA LAKE, CALLING LAKE, Alberta and INGA (SOUTH), British Columbia.

The following agreements have been completed which, it is felt, could become highly beneficial to Numac.

MACKENZIE DELTA, Northwest Territories — Numac's eight permits totalling 270,242 acres were recently acquired by an Alberta-based oil and gas firm for a cash consideration of \$270,242 plus the reservation to Numac of a 20% net carried interest. The Mackenzie delta area is currently receiving a good deal of attention and is considered by many authorities to have great potential. This enthusiasm is a result of two highly significant north Alaskan slope oil discoveries recently made by the Atlantic-Richfield-Humble group which wells are reported to have found thick pay in the Triassic and Mississippian formations capable of producing in excess of 2,000 and 1,100 barrels of high gravity oil per day from each respective formation. Opinions have been expressed that a potential area approximately 35 miles long and 7 miles wide may exist which could contain recoverable oil reserves of 2 to 5 billion barrels. Similar geological conditions are said to be in the Mackenzie delta and it is now reliably reported seismic work will be carried out and at least two deep tests will be drilled in the vicinity this winter.

OTHER AREAS — The Company has now completed sale of its working interest in BITUMINOUS SANDS Lease No. 18. In return for the working interest Numac received 10% of the \$300,000 cash consideration and 5% net carried interest reserved to the Numac group. An Agreement has been recently completed whereby a detailed seismic program will be carried out on 114,400 acres held 50/50 by Numac and an Associate in the LEADER AREA of southwest Saskatchewan. The farmee has the option to progressively earn an interest in set amounts of acreage by the drilling of test wells.

MINING EXPLORATION

LAKE ATHABASCA AREA, SASKATCHEWAN

As of June 30, 1968 Numac's gross acreage holdings in the Lake Athabasca uranium province totalled 690,000 acres. All of the holdings are now under active exploration, with Numac exploring the URANIUM CITY and EAST KISIWAK acreage, Trans-Canada Oils Ltd. the KISIWAK LAKE acreage and King Resources Company the CHARLEBOIS LAKE and CAMSELL PORTAGE properties.

North of URANIUM CITY, Numac is engaged in prospecting and mapping specific areas on Permit No. 1 and adjacent claim blocks. Diamond drilling has commenced on a showing one-half mile northwest of Eldorado's HAB mine, one of several showings in this vicinity which will be drilled this summer. An airborne scintillometer survey has been completed on the EAST KISIWAK acreage, the results of which are now being compiled. At KISIWAK LAKE

AR18

Am

Special Report

to

Shareholders

Lee

NUMAC OIL & GAS LTD.

December 17, 1968

Trans-Canada Oils has been engaged in prospecting, mapping and stripping the main showing which has now been traced along a strike length of 6,000 feet. Diamond drilling commenced in late June on the showing and is progressing very satisfactorily. One drill, possibly two, will operate in the area for the remainder of the summer field season. King Resources has exploration parties on the CAMSELL PORTAGE and CHARLEBOIS LAKE properties and will be moving drills to both areas in July to further evaluate known prospects.

Prior to the commencement of exploration this spring, Numac and Imperial Oil Limited staked two claim blocks totalling 19,100 acres in the CREE RIVER area, adjacent to permits held by Mokta and Gulf Minerals. No work is contemplated on this ground in 1968.

YELLOWKNIFE-PORT RADIUM AREA, Northwest Territories

Numac entered into an exploration venture in the Yellowknife-Port Radium area this year with Shield Resources Ltd., a Yellowknife-based exploration company. Shield is headed by Earl E. and John D. Curry, both of whom have had wide experience in the Northwest Territories. The exploration program will consist of detailed prospecting and mapping of known mineral showings and airborne scintillometer surveying of specific areas of interest. The program has led to the staking of nine claims on a uranium prospect in the Rae Lake area and further staking is anticipated. At Ingray Lake, in this same general area, Numac owns with another group a 25% interest in 21 claims which were staked late in 1967. Assessment work of these claims is now being carried out.

COPPERMINE RIVER AREA, Northwest Territories

Numac holds a 25% interest in 110 claims in three separate groups in the Coppermine River area. These claim groups, which are all on known mineral showings, will be actively explored and prospected this summer.

FINANCIAL

FIRST HALF

1967 1968

Production Income	\$180,723	\$242,882	+ 34.4%
Interest	26,203	4,765	- 82.8%
Other Income	18,924	300,310*	+ 1538%
	<u>\$225,850</u>	<u>\$547,957</u>	+142.6%

Net barrels produced 91,215 114,213 + 25.2%

*Includes non-recurring profits resulting from considerations received under farmout agreements.

W. S. McGregor
President

EDMONTON, ALBERTA
JULY 15, 1968

INTERIM REPORT

NUMAC OIL & GAS LTD.

TO THE SHAREHOLDERS

The first half of 1968 was probably the most significant six month period in Numac's five year history. Income amounted to \$547,957, a gain of 142.6% over the equivalent 1967 period. Working capital as of June 30, 1968 was \$2,728,871 and the Company remained debt free. It should be noted that the substantial increase in working capital was brought about by the exercising of outstanding Share Purchase Warrants which netted the Treasury \$2,165,471. Numac's share capital position now stands at 3,743,225 shares issued.

Since January 1st, two dual-zone wells were drilled at Zama Lake and an excellent Granite Wash oil well was placed on production in Red Earth. Selective Crown acreage was purchased in these and other areas and wells are now drilling or planned on certain of these parcels. Inclusion of Company parcels in units and secondary recovery projects and the completion of the new wells has brought about an increase of proven and probable oil reserves from 6,862,000 to 8,650,000 barrels. Exploration on Numac's uranium properties is again proceeding at an accelerated pace with diamond drilling programs under way during this summer season in four main areas. As of June 30, 1968, Numac's oil, gas and mineral interests totalled 1,698,121 acres.

In addition to the above, we are pleased to report that two directors were added to Numac's Board, namely Mr. James F. Jungé, President of The Pitcairn Company, Jenkintown, Pennsylvania and Mr. Lloyd F. Stevens, Executive Vice-President of Allpak Products Limited, London, Ontario. It is gratifying to have these capable men on Numac's Board and we expect their counsel will be valuable to the progress of Company affairs.

OIL AND GAS ACTIVITIES

Numac participated in the drilling of two dual-zone wells in ZAMA LAKE during the first half of 1968. One, located in Lsd 3-8-116-5 W6M on a half section purchased at the January, 1968 Crown Lease sale, was completed in the Zama and Keg River oil zones and is now on steady production. The second well has just been drilled in Lsd 12-10-117-4 W6M on a 320 acre parcel acquired at the April, 1968 Crown sale and is being completed as a Keg River oil well. This well also has a good Sulphur Point gas zone which will not be completed until a market is available. Numac now holds varied interests in 22 quarter sections in the Zama Lake area and has participated in 6 exploratory wells. Of these, one test was dry while 5 were successes, 3 of which are dual-zone completions. In RED EARTH, the Granite Wash oil well in Lsd 4-24-87-9 W5M (which was referred to in our Fifth Annual Report) is now on steady production. Because of this producer, extra acreage has been added to the Company's surrounding production spacing block resulting in production increases.

NUMAC OIL & GAS LTD.

OTHER MINERALS

Nickel Prospect - Northwest Territories

Numac holds a one-third interest in 999 claims (approximately 50,000 acres) recently staked in the HANBURY RIVER area northeast of Great Slave Lake. These claims are well located in the area of recent heavy staking activity set off by favorable nickel-copper shows found by Newmont Mining. Numac and its associates (two private mining companies) have just signed an Agreement with a large nickel mining company, which firm has agreed to carry out an active exploration program on a group of 254 of the claims over the next two years. Work will commence as soon as possible in 1969.

Numac also holds 50/50 with another company 227 claims in the CARIBOU LAKE area. This group blankets a gabbro-anorthosite body lying immediately north of Great Slave Lake. Nickel-copper and cobalt values have been found on the properties as well as other mineral shows. An electro-magnetic survey is now under way on these claims and will be followed up with a drilling program if warranted.

Gulf Minerals Uranium Discovery - Athabasca Lake Area, Saskatchewan

Four permits were filed on last week by Numac and Imperial Oil Enterprises Ltd. (50% each) in the WOLLASTON LAKE area (see map). These properties totalling approximately 700,000 acres, were taken out prior to the latest scramble for permits and are well located east, south, west and northwest of the recent uranium strike made by Gulf Minerals Co. and announced jointly by that company and the Premier of Saskatchewan. The announcement said tests made from selected sample zones taken from a 500 foot drill hole revealed uranium oxide U_3O_8 values of 0.60% over a total footage of 190 feet. These grades are three times better than those found in the Beaverlodge area and four to five times better than Elliot Lake. Numac and Imperial Oil Enterprises will commence an exploration program on these recently acquired permits early in 1969.

In addition to the above properties, Numac and Imperial Oil Enterprises staked 76,864 acres of claims in the CREE RIVER area (19,100 acres) and on the outstanding CARSWELL DOME (57,764 acres), both of which lie in the Athabasca sandstone. As a result of these acquisitions, Numac's prospective uranium holdings in the area amount to approximately 1,300,000 acres.

W. S. M. Gregor

President

11055 - 107 Street
P.O. Box 68
Edmonton 15, Alberta

AR18

Am

Special

Report

to

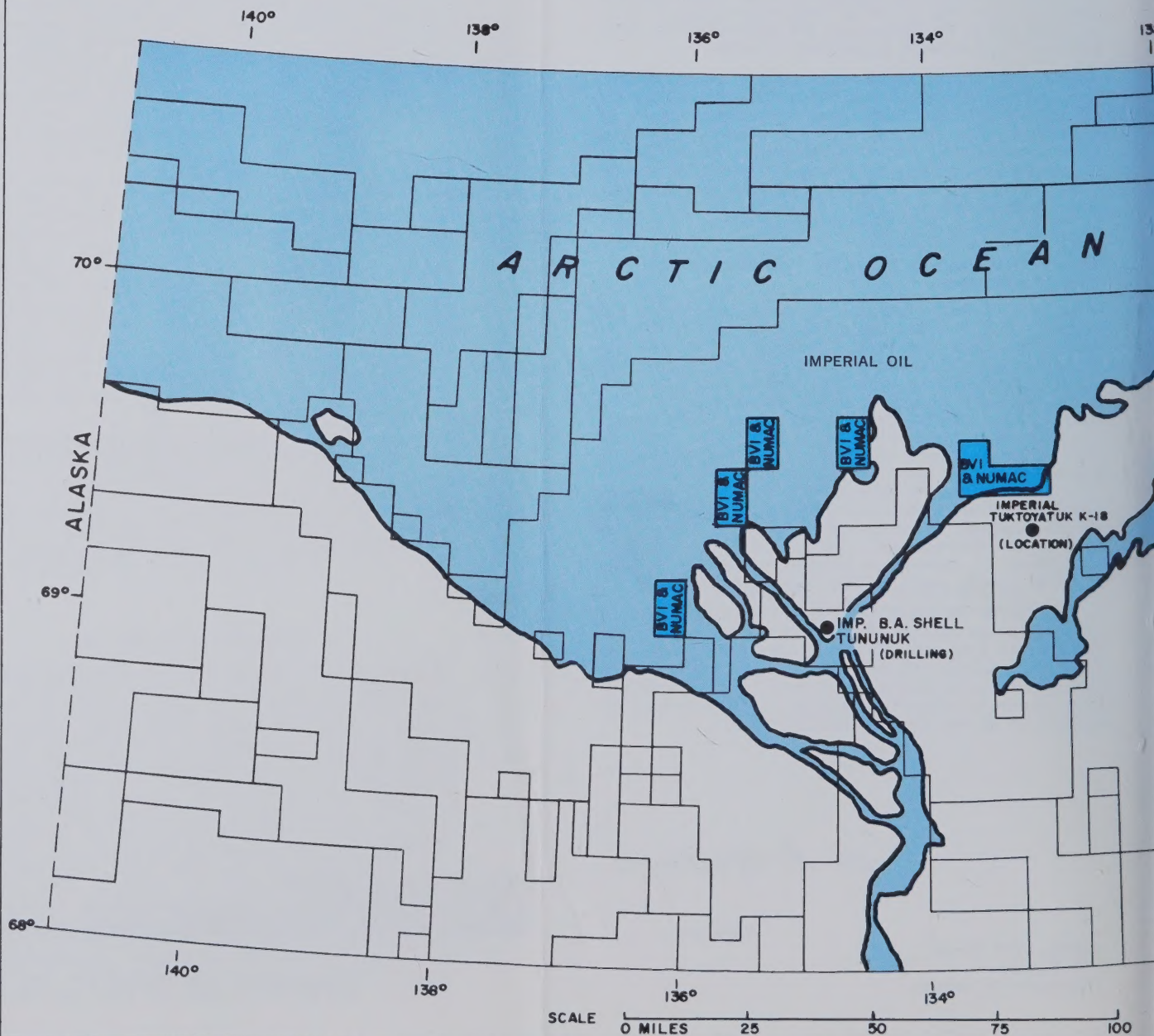
Shareholders

Lee

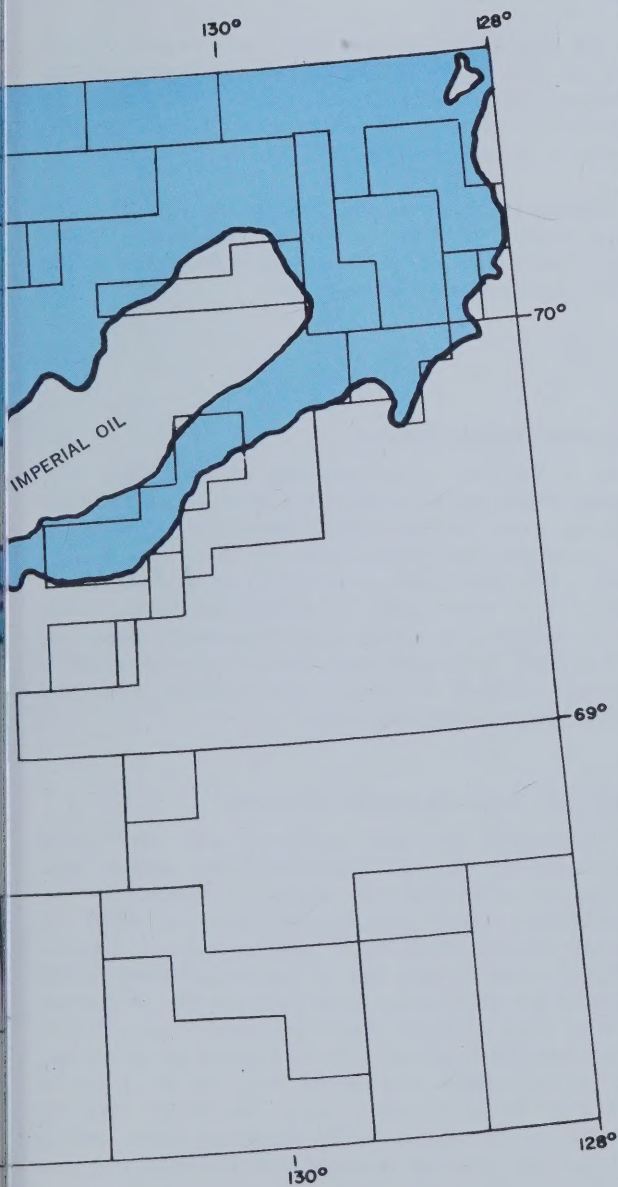
NUMAC OIL & GAS LTD.

December 17, 1968

NUMAC LAND HOLDINGS MACKENZIE DELTA AREA



GS REA



NUMA

REPORT TO THE SHAREHOLDERS

This special report is being released to inform Numac shareholders of the successful completion of its recent Rights issue. At the same time it affords us the opportunity to bring our shareholders up to date on certain pertinent developments in the last few months and, more significantly, some important occurrences of the last few days.

We are pleased to announce that approximately 99 percent of the Rights issued to all shareholders were exercised. This issue netted the Company approximately \$2,250,000 bringing Numac's consolidated working capital to an estimated \$4,200,000.

In addition to this favorable working capital position, the gross income of \$951,034 for the nine month period ended September 30, 1968 was more than double that of the comparative period last year.

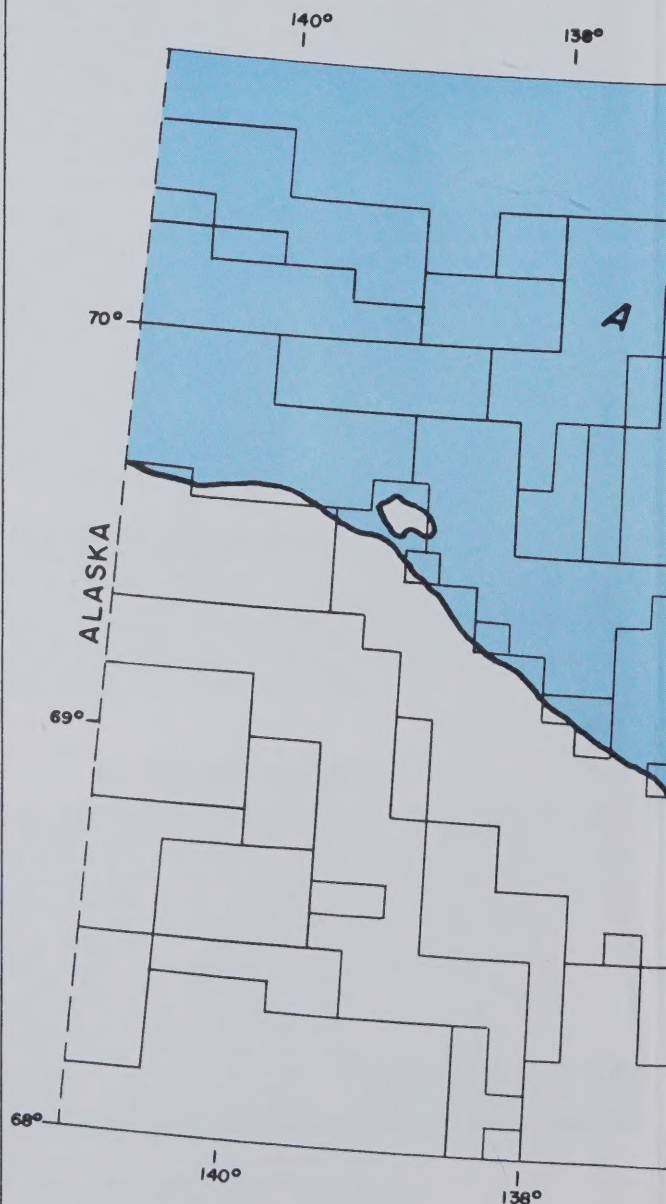
OIL & GAS

Successful Drilling Program

Early in the year, your Company, in association with others, drilled two exploratory dry holes in the Bat Lake area but since then has participated in the completion of 11 consecutive successful wells. (4 oil in RED EARTH, 1 oil in UTIKUMA LAKE, 3 oil and 2 gas in ZAMA LAKE, and 1 oil in INGA (SOUTH), British Columbia.) Numac is the operator of a drilling program presently under way in Red Earth, while additional wells will also be drilled on Company acreage in Zama Lake, Utikuma Lake and certain other undisclosed areas.

Mackenzie Delta, Northwest Territories

An Agreement has been completed with Bow Valley Exploration on Numac's Mackenzie Delta acreage. Bow Valley and associates will supply all exploration and development costs, reserving to Numac a 20% net carried interest on all eight permits involved, totalling 270,242 acres. A deep test is now being drilled by the Imperial-B.A.-Shell group about 30 miles east and south-east of these holdings. Most important, however, is an announcement made last week by Imperial Oil Enterprises Ltd. of the location of a second deep test which will be drilled on its wholly-owned lands (see map). This key test, to be commenced in the immediate future, will be located approximately 8 miles from Numac's and Bow Valley's largest permit block.







Testing Typical Zama Area Well

FINANCIAL AND OPERATING HIGHLIGHTS

	<u>1968</u>	<u>1967</u>	<u>Percentage Increase</u>
Gross Revenue	\$1,386,325	\$ 653,135	112.2
Net Cash Income Generated from Operations	\$ 805,510	\$ 432,954	86.0
Net Income	\$ 504,297	\$ 240,210	109.9
Working Capital	\$3,640,098	\$ 147,996	
Exploration and Development Expenditures	\$1,468,856	\$1,480,293	(0.8)
Net Annual Oil Production after Royalties (Barrels)	277,191	189,407	46.3
Land Holdings:			
Gross Acres	2,514,639	1,597,111	57.4
Net Acres	1,160,115	1,121,752	3.4

REPORT TO THE SHAREHOLDERS

Your Company achieved new records in oil reserves, production and income during 1968. Gross income was \$1,386,000 as compared with \$653,000 the previous year. Cash flow was \$806,000 as compared to \$433,000 in 1967. Net income increased to \$504,000 from \$240,000. At year end light gravity oil reserves exceeded 10 million barrels and crude oil production increased from 189,000 barrels in 1967 to 277,000 barrels in 1968. Working capital increased from \$148,000 in 1967 to \$3,640,000 at year end. This substantial increase in Numac's working capital position accrued partly from the exercising by shareholders of Warrants which were attached to the original stock issue and entitled the holders to purchase treasury stock at \$4.00 per share. Further monies were received under a Rights issue offered to shareholders later in the year whereby shareholders were entitled to purchase one share for every ten held at \$6.00 per share. Cash consideration under farmout agreements amounted to \$364,000 and the remaining funds came from production and other operating income.

Numac presently has interests in 2,514,600 acres of oil, gas and mining properties in Western Canada, some of which are located in strategic areas and have high potential. The unprecedented Atlantic Richfield oil discovery at Prudhoe Bay has served to spotlight the Mackenzie Delta area. This is another large deep basin east of Prudhoe Bay that should also contain oil reserves, and where Numac has an interest in 270,000 acres of well located permits.

Similarly the extremely rich uranium discovery announced by Gulf Minerals at Wollaston Lake in northern Saskatchewan has riveted attention on the future potential of this area. Again, Numac has interests in several hundred thousand acres on three sides of this discovery area. In addition to Numac's uranium programs in northern Saskatchewan (see "Mineral Exploration"), an active mineral search will be carried out in the Northwest Territories with other mining associates.

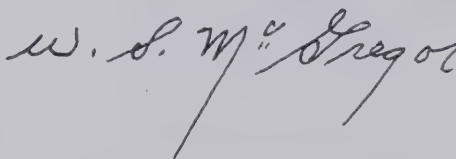
In August of 1968 Numac purchased McGregor Johanson Ltd. This oilfield construction company has enjoyed 21 years of continuous success, and management is confident the addition of this company will substantially increase the revenues needed for Numac's diversified exploratory programs.

During 1968 Numac participated in the drilling of 15 wells, 13 of which were successes. Several exploratory and development wells are presently under way or are scheduled for 1969. Some of these will be drilled free of cost to Numac on a farmout basis and others will be drilled in association with other oil companies. We are confident that 1969 is going to be another outstanding year of progress for your Company.

We welcomed two additions to the Directorship of Numac in 1968, in the persons of Mr. James F. Jungé, President of The Pitcairn Company, Philadelphia, and Mr. Lloyd F. Stevens, Executive Vice-President of Allpak Products Limited, London, Ontario. We are also pleased to report the addition to Numac's management team of Mr. John T. Ferguson, B. Comm., C.A. He replaced Mr. E. C. Kellam, former Company Treasurer, who had reached the age of retirement during the year. Your President and Directors acknowledge the contributions made by Mr. Kellam who served our organization faithfully and well since inception.

The Directors appreciate the excellent work of the Company staff without whose dedication the progress reported for the year under review would not have been accomplished.

On behalf of the Board of Directors



W. S. MCGREGOR
President

Edmonton, Alberta
April 14, 1969

OIL AND GAS EXPLORATION AND DEVELOPMENT

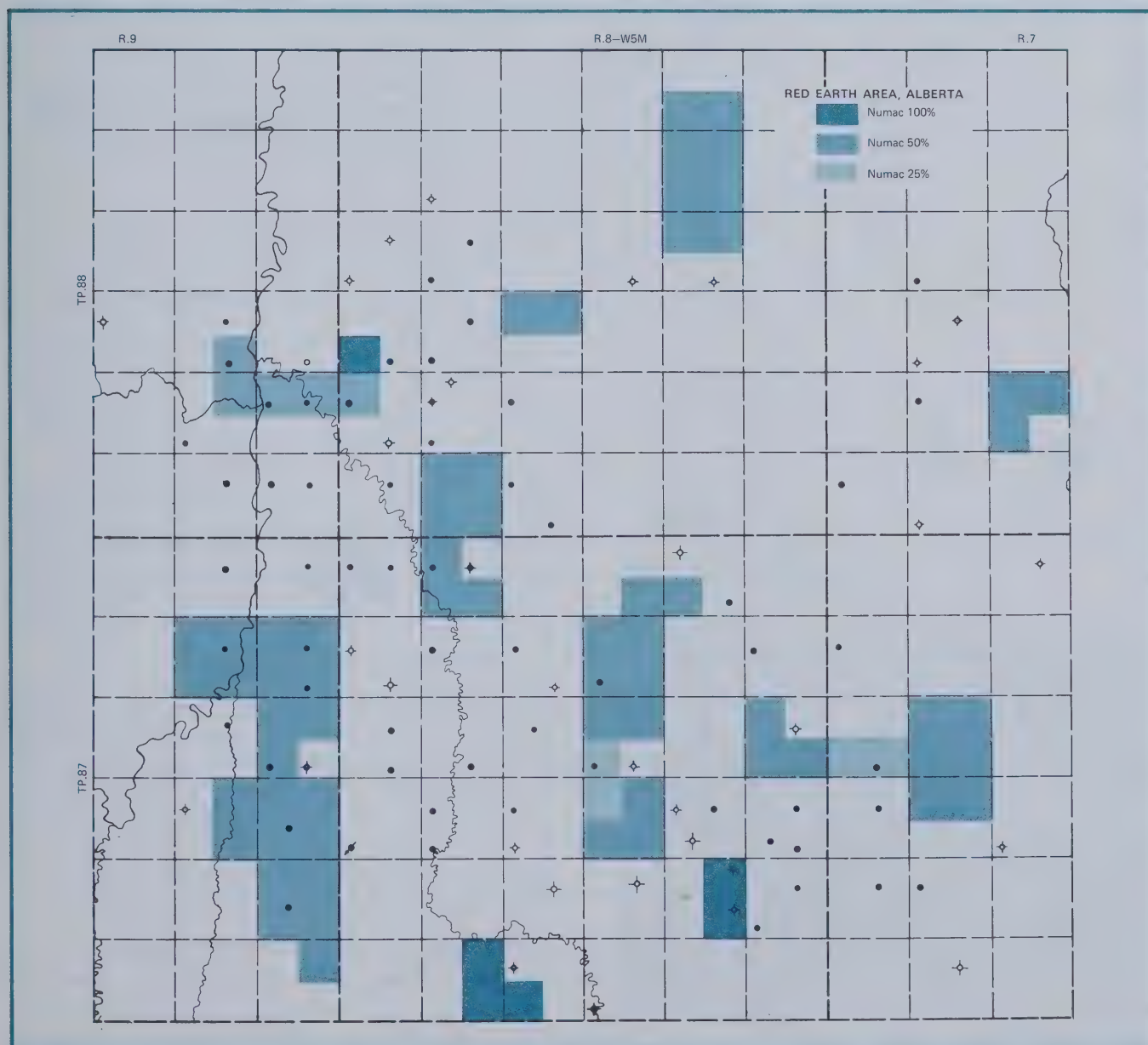
1968 must be classed as a year of progress for Numac in that after drilling two dry holes the first part of the year, thirteen successive wells (11 oil and 2 gas) were completed, resulting in the largest yearly increase in the Company's reserves and income to date (see "Highlights" and "Six Year Statistical Summary"). In addition, several farmout agreements were completed through which sizeable cash considerations and exploration commitments were realized.

RED EARTH (See Map)

Six oil wells were drilled in the RED EARTH area during the year, four being completed in the

Granite Wash and two in the Slave Point. Numac holds a 50% working interest in the Granite Wash wells and one Slave Point well. A gross overriding royalty was retained in the other Slave Point well which was drilled and completed under a farmout agreement.

Red Earth continued to be Numac's main area of activity and the success ratio to date has not only contributed substantially to Company income and reserves, but the cost per barrel of developed reserves is well below industry average for Alberta. Additional wells will be drilled in this area in 1969.



ZAMA (See Map)

Numac continued to participate with associates in detailed seismic evaluation and acquisition of selective parcels of land at Crown Sales. Five Keg River wells were drilled during 1968 bringing the total number of successes in the Zama field to eight. Numac's interests in these wells vary from 5 to 33 1/3 percent.

OTHER DRILLING ACTIVITY

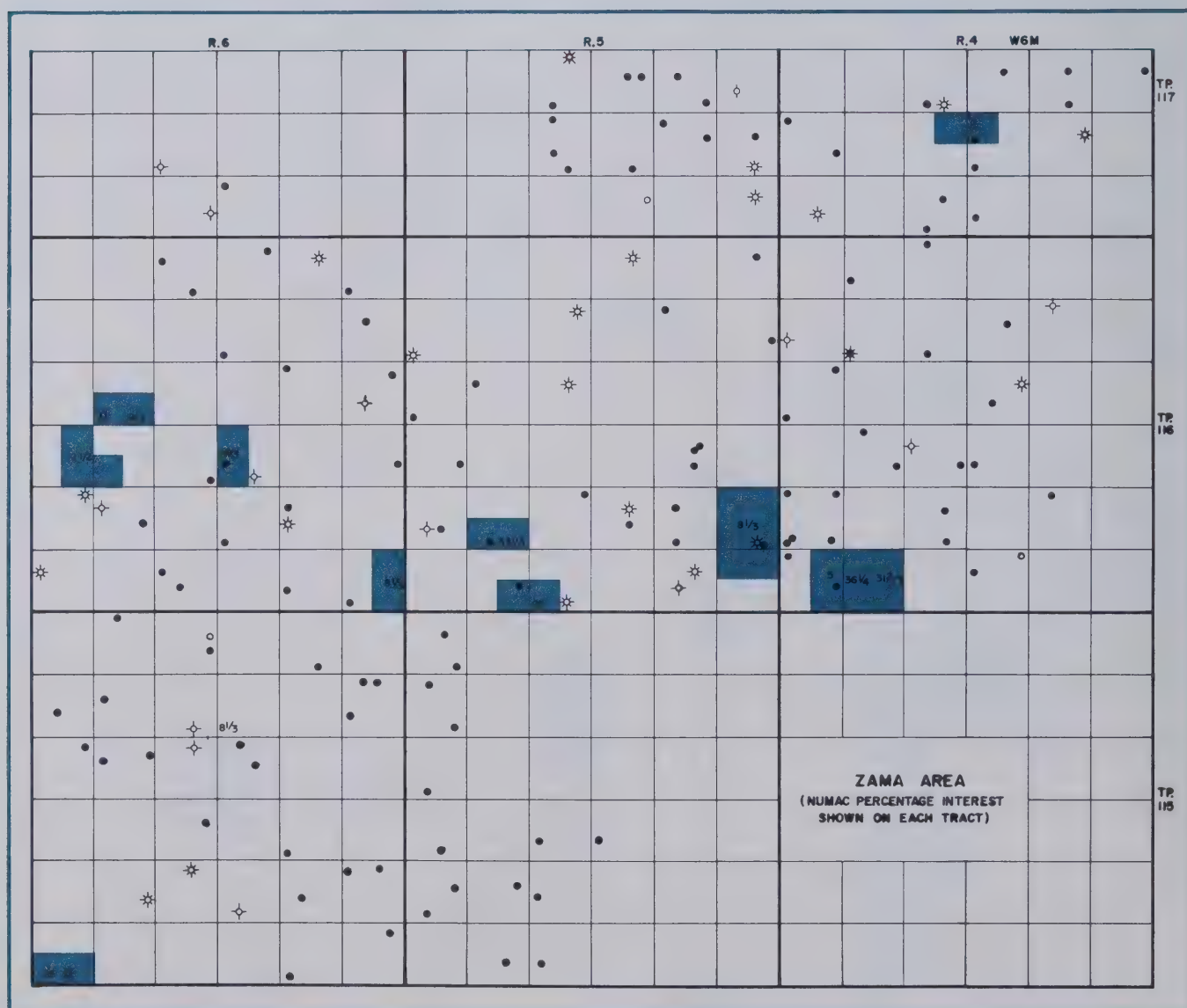
Two dry holes were drilled early in 1968 in the BAT LAKE area south of Red Earth, 20 percent of the costs of which were supplied by Numac. In the INGA (SOUTH) area of northeast British Columbia

the Company holds a 25% interest in a half section of Crown acreage on which an Inga Sand well was drilled and has been on steady production since early 1968. Numac participated (as to 50%) in a successful Granite Wash oil well drilled in the late fall in the UTIKUMA LAKE area.

LAND TRANSACTIONS

Several agreements were completed during the year whereby Numac's obligations on more risky acreage have been either assumed by or shared on a profitable basis with other companies.

Numac sold its working interest in eight MAC-KENZIE DELTA (see map) permits totalling 270,242



acres for a substantial cash consideration and retained a 20% net carried interest. Under this arrangement, the acquiring firm will supply all exploration, development and operating costs, and upon recovery of same Numac will receive 20% of all production. The permits are in either shallow waters or are partially on land, some having islands within their borders upon which drilling sites could be located. The highly significant Prudhoe Bay discoveries in Alaska have greatly increased interest in the Mackenzie Delta area where a thick sedimentary basin is known to exist. Two strategic deep tests are now being drilled, one by Imperial, B-A and Shell approximately 30 miles southeast of the Numac holdings and the other by Imperial approximately 8 miles south of the Company's largest block. Extensive seismic work is being done in the general area and it is understood additional wells are planned.

A concentrated seismic program has been completed under an option-farmout agreement on two permits totalling 114,400 acres in the LEADER area, Saskatchewan, in which Numac holds a 50% interest. Indications are that the farmee will drill to earn a half interest in the lands from Numac and its associate.

A seismic program is planned for early 1969 on a 44,192 acre permit in the KOMIE area of northeast British Columbia. Numac holds a 25% interest in this block which is operated by a major oil and gas firm.

The Company transferred its 35% working interest in two GRANDE PRAIRIE, Alberta area reservations containing 97,120 acres to a Calgary oil and gas company and a detailed seismic program has been completed. A gross overriding royalty of 8% was retained by the Company. Numac holds three lease blocks northwest of the Gold Creek area totalling 12,479 acres, and has retained a 20% net profits interest through a farmout agreement with a major U.S. oil and gas firm. The farmee has been doing extensive seismic work on and around Company holdings which could lead to a deep test well.

Numac and two other companies each held a $\frac{1}{3}$ working interest in 10,880 acres of P&NG leases and two capped gas wells in the HAMILTON LAKE area of southeast central Alberta. Since sale of gas from this area presently appears to be well in the future, the group sold the properties for a cash consideration and a gross override (Numac's share — \$30,880 plus 3%).

PRODUCTION

Reflecting the degree of success that Numac has enjoyed in the completion of wells during 1968, the net oil production for the year was 277,191 barrels which is a 46.3% increase over the net production for 1967. Towards the end of the year the rate of net production passed the 1,000 barrel per day mark for the first time, which in turn indicates that another substantial increase can be expected during 1969.

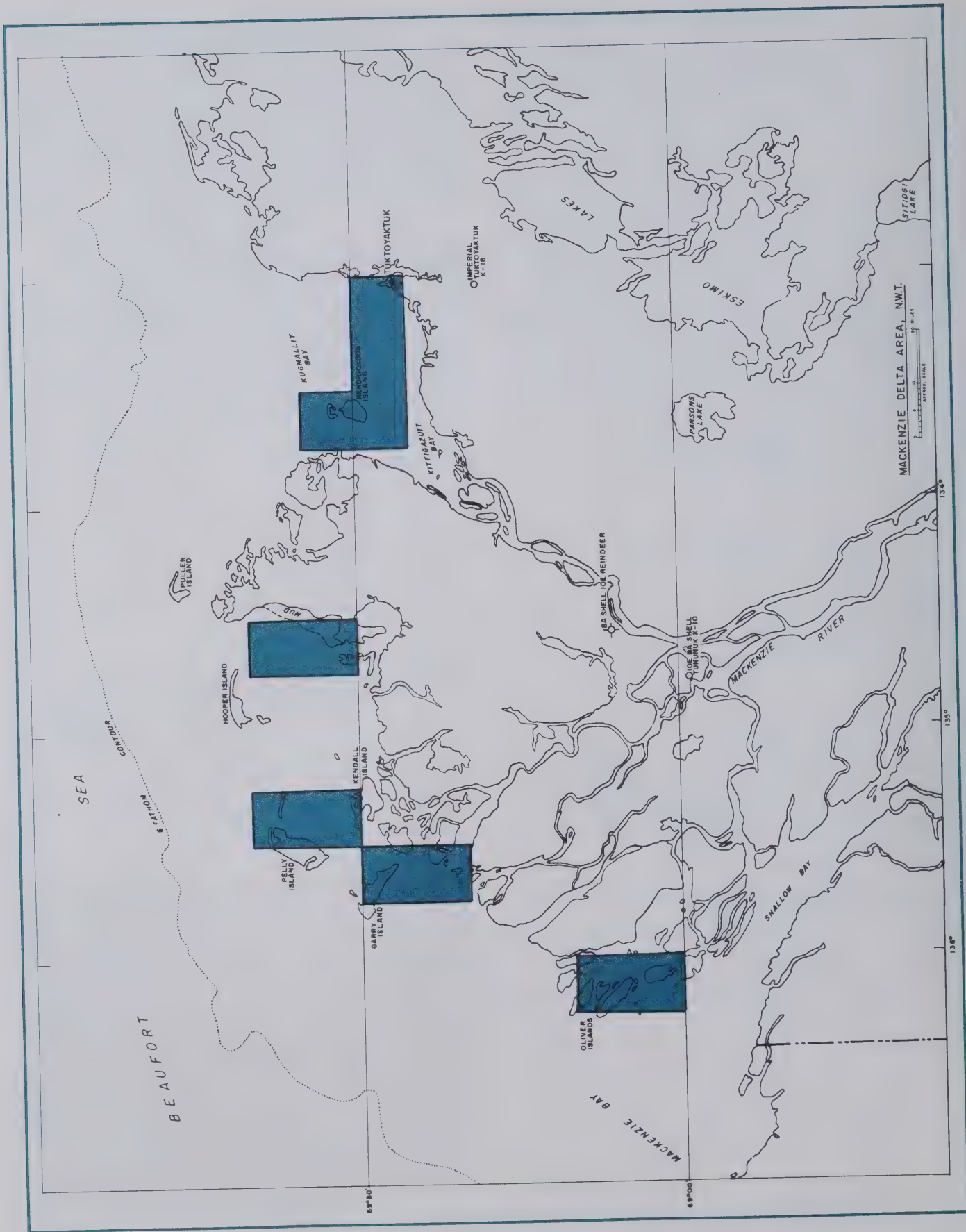
The several oil producing units in which Numac participates are now in full operation and the ensuing benefits obtained from increased production allowables due to secondary recovery schemes in these units are substantial.

MINERAL EXPLORATION

During 1968 Numac almost doubled its property interests in Northern Saskatchewan and at the same time moved into the Northwest Territories. Total mineral holdings, other than oil and gas, approximated 1,564,930 acres at year end.



Examining Uranium Cores, Kisiwak Lake



NORTHERN SASKATCHEWAN

(See Centre Page Map)

1968 uranium exploration activities in northern Saskatchewan were continued on properties north of LAKE ATHABASCA, where total acreage holdings at year end amounted to 672,526 acres. Numac and Imperial Oil Enterprises Ltd. did further assessment work on properties north of URANIUM CITY but did not turn up new showings of specific significance. In the CHARLEBOIS LAKE area, immediately north of Black Lake, an estimated additional 58,000 tons of commercial grade ore were delineated on the Mozzie prospect bringing total estimated reserves to 204,000 tons of 0.12 U₃O₈. Further drilling is planned on these properties in 1969 by Numac and Imperial. Another company, under its farmout agreement with Numac and Imperial, carried out further airborne and ground assessment work and diamond drilling on CAMSELL PORTAGE Permit No. 4 in the northwest corner of the province. Significant uranium showings were encountered along the north shore of Lake Athabasca at the south end of the permit. Further work will be done on this Permit in 1969. The KISIWAK LAKE properties lying approximately 30 miles east of Uranium City and immediately north of Lake Athabasca were the scene of an intensive exploration program including detailed prospecting, trenching and diamond drilling. Numerous significant uranium occurrences were found, some of which showed promise for commercial production. Detailed mapping, further drilling and other assessment work is planned for 1969.

The properties in the above areas are held 50/50 by Numac and Imperial. Where a farmout is involved, their respective interests have, or will be, reduced to 25 percent.

During the year Numac and Imperial added 825,864 acres south of Lake Athabasca. These holdings include four permits totalling 749,000 acres in the WOLLASTON LAKE area which are strategically located in relation to the Gulf Minerals Co. uranium discovery announced in late 1968. The remaining properties are situated in the Athabasca Sandstone basin. Two claim blocks are in the CREE RIVER area in the center of the basin while six claim blocks in the CARSWELL LAKE area on the west side of the basin are located on what is considered a significant geological structure.

Numac has completed a farmout agreement with Bow Valley Land Co. Ltd., covering all properties south of Lake Athabasca. Bow Valley paid a cash consideration and will carry Numac through all costs of exploration, mining and development for 80% of Numac's 50% share, while Numac will supply the remaining 20%. When Bow Valley has recovered such costs out of its share of proceeds from mineral substances sold, Numac and Bow Valley will each beneficially hold a 25% interest. The other 50% interest is retained by Imperial and is not involved in the above farmout agreement. A full scale exploration program is planned for the 1969 season on the Wollaston Lake and Carswell Lake properties.

NORTHWEST TERRITORIES

227 claims are located on a nickel-copper prospect in the CARIBOU LAKE area on the north shore of Great Slave Lake while 9 claims are on what is known as the FAB uranium prospect. 999 claims were staked in the HANBURY RIVER area northeast of Great Slave Lake 60 miles southeast of Yellowknife, where a potentially important nickel discovery was made by Newmont Mining Ltd. in an environment geologically and structurally similar to the prolific Thompson, Manitoba, nickel-producing area. Agree-

ment has been reached with Giant Yellowknife Mines Limited under which specified work requirements must be met to earn an interest in 254 of the Hanbury River claims.

An intensive exploration program is now being planned. Numac's principal associate and operator of the properties is a capably-managed private company known as Shield Resources Limited (N.P.L.) with several years experience in the Northwest Territories. Present Company interests vary from 25 to 33½ percent.



Exploring for Uranium with Scintillometer

FINANCIAL REVIEW

Effective January 1, 1968, the Company retroactively adopted the full-cost method of accounting. This method of accounting involves the capitalization of all exploration and development costs and the amortization of these costs by the unit of production method based upon the Company's total proven reserves. Previously only acquisition costs of exploratory acreage and productive wells were capitalized whereas non-productive costs were expensed in the period they were proven to be unproductive and acreage was written off when surrendered.

The full-cost method of accounting is progressively becoming the most widely used method in the oil exploration and production industry in Canada. The method tends to reduce wide fluctuations in annual operating exploration expenses and provides a more meaningful matching of expenditures and revenues.

The new method was applied retroactively to show the effect of the change on the operations of prior years and prevent overstating operating profits in the future. The adjustment as it relates to the period from inception of the Company to December 31, 1967, results in an increase in retained earnings of \$836,892.

Under the full-cost method, gains (or losses) on sale of properties are not taken into income in the

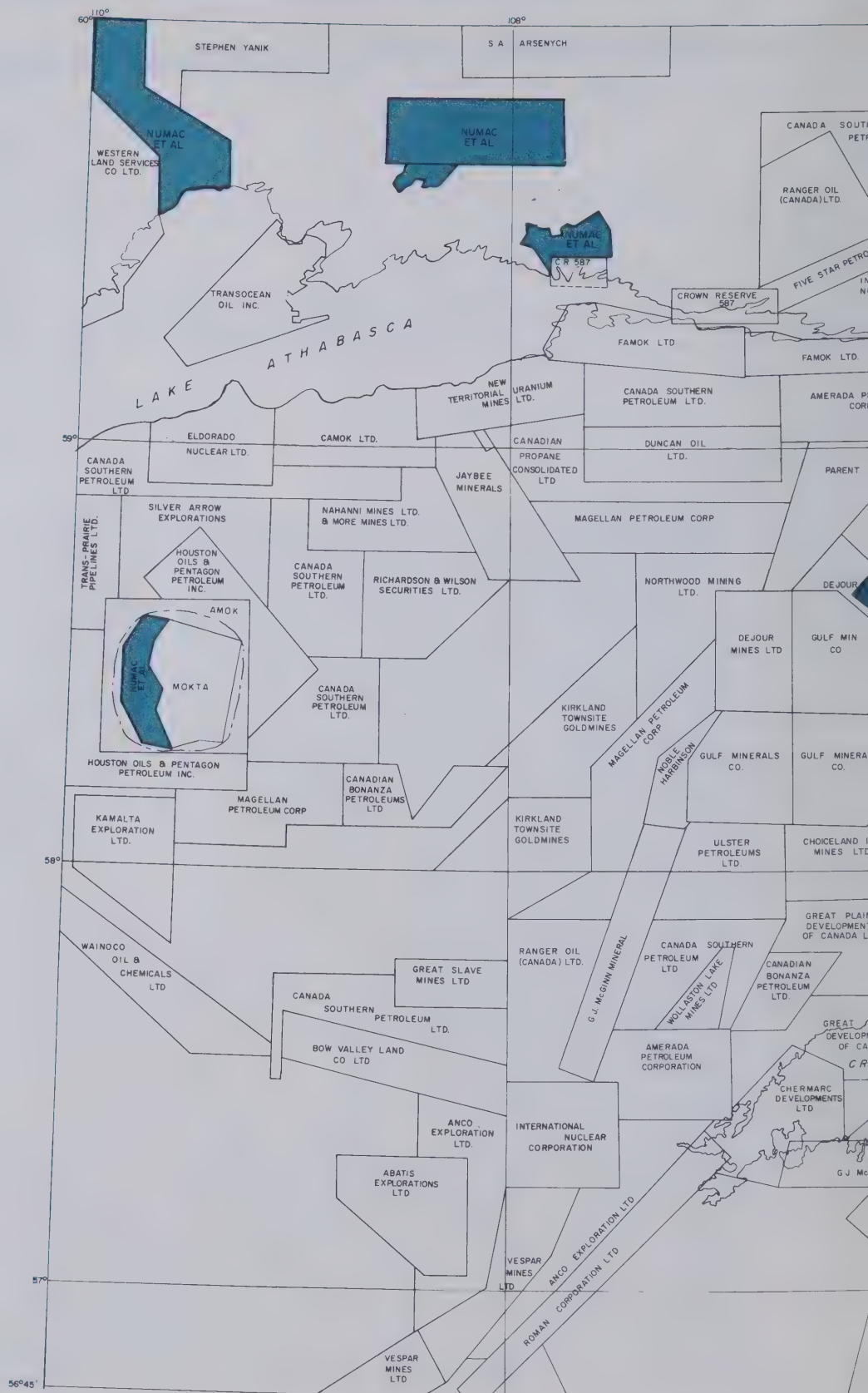
year of disposition. Rather the amount is credited (or debited) to the total cost of lease rights. During the year the Company netted a gain of \$276,742 on the disposition of properties which is not reflected in the Consolidated Statement of Income, but rather was credited to the cost of Land, Leases and Well Costs. If the Company had considered this gain to be of an extraneous nature, net income for the year would have increased to approximately \$780,000.

In 1968, gross income (after royalties) increased 112% to \$1,386,325 from \$653,135 in 1967.

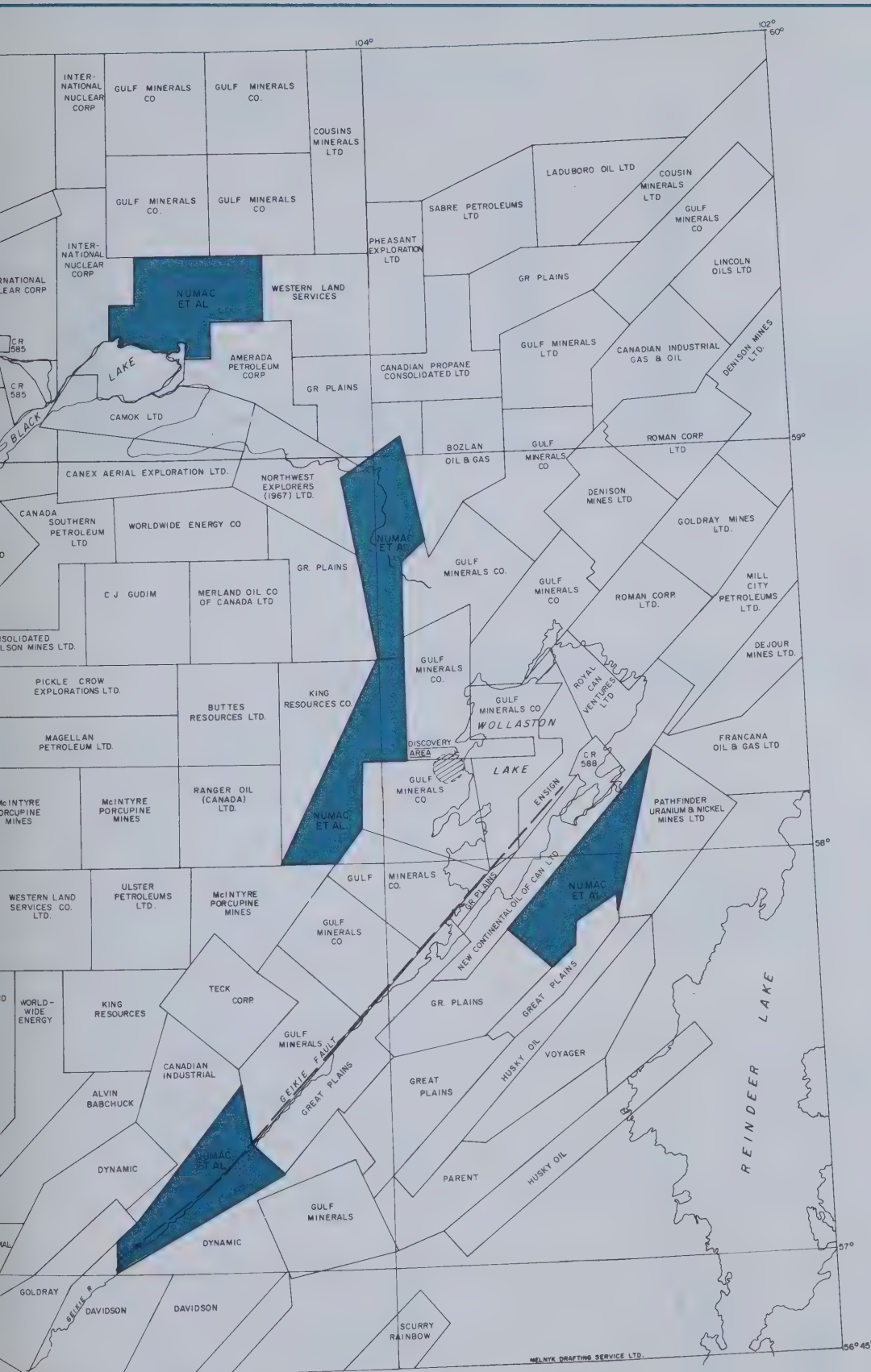
Net income was \$504,297 in 1968 compared with net income of \$240,210 in 1967 using the full-cost method of accounting. Net income for 1968 calculated on the previous basis would have been \$504,051.

Net cash income generated from operations amounted to \$805,510 in 1968, an 86% increase over \$432,954 in 1967.

In conformity with general practice in the oil and gas industry in Canada and the United States, no provision for deferred income taxes has been made in the accounts as a result of claiming drilling, exploration and lease acquisition costs for income tax purposes in excess of related amounts charged in the accounts.

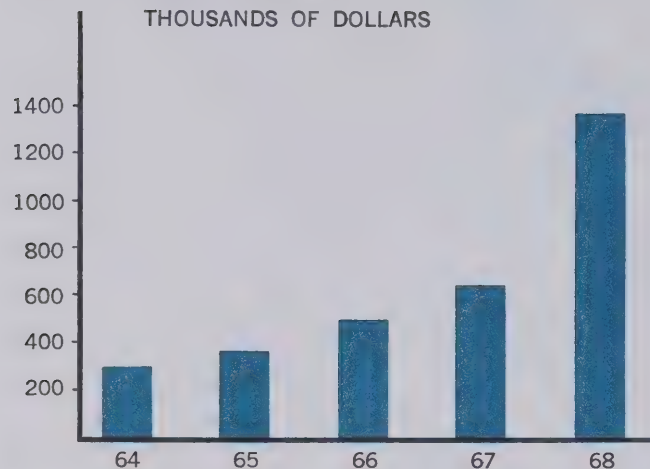


NUMAC OIL & GAS NORTHERN SA

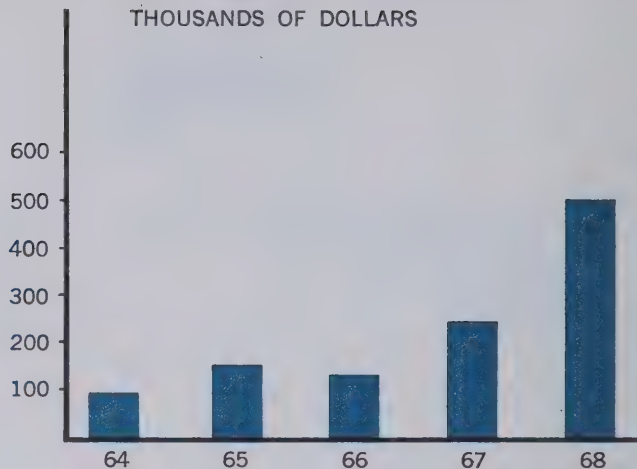


URANIUM PROPERTIES SASKATCHEWAN AREA

GROSS INCOME
THOUSANDS OF DOLLARS



NET INCOME
THOUSANDS OF DOLLARS



NUMAC OIL & GAS LTD.

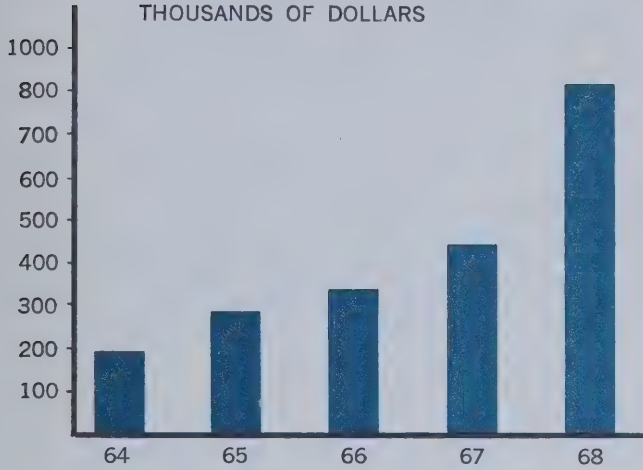
SIX YEAR STATISTICAL SUMMARY (Note)

	<u>1968</u>	<u>1967</u>	
Gross Revenue, net after royalties	\$ 1,386,325	653,135	4
Operating Expenses	\$ 385,789	93,146	
General and Administrative Expenses	\$ 112,670	82,876	
Net Cash Income generated from operations	\$ 805,510	432,954	3
Net Income	\$ 504,297	240,210	1
Working Capital	\$ 3,640,098	147,996	1,2
Exploration and Development Expenditures	\$ 1,468,856	1,480,293	6
Shareholders' Equity	\$10,275,499	5,217,706	4,9
Number of Shares Outstanding	4,177,566	3,209,925	3,2
Net Annual Oil Production, after royalties (barrels)	277,191	189,407	1
Land Holdings			
Gross Acres	2,514,639	1,597,111	1,3
Net Acres	1,160,115	1,121,752	1,0

NOTE: The above Statistical Summary includes the operations of Numac Oil & Gas Ltd. from date of incorporation, acquisition. It also reflects retroactive adjustments due to the adoption of the full-cost method of accounting

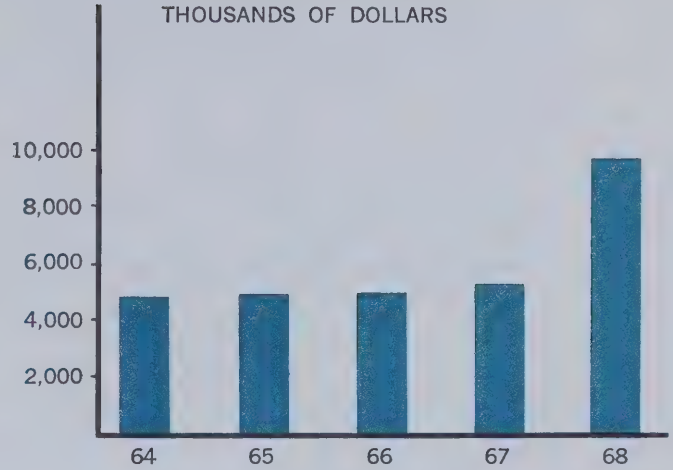
CASH GENERATED FROM OPERATIONS

THOUSANDS OF DOLLARS



SHAREHOLDERS' EQUITY

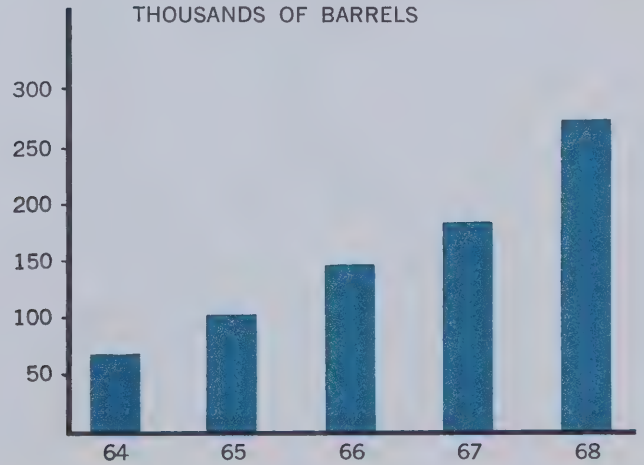
THOUSANDS OF DOLLARS



<u>1965</u>	<u>1964</u>	<u>1963</u>
353,488	281,352	104,154
34,611	38,221	6,908
46,928	49,837	31,143
288,200	190,476	66,103
157,132	99,682	(4,401)
1,778,017	2,133,439	2,977,393
600,286	861,881	1,483,791
4,801,613	4,644,481	4,544,799
3,200,000	3,200,000	3,200,000
108,316	70,360	11,861
921,100	490,944	397,431
735,470	327,125	151,900

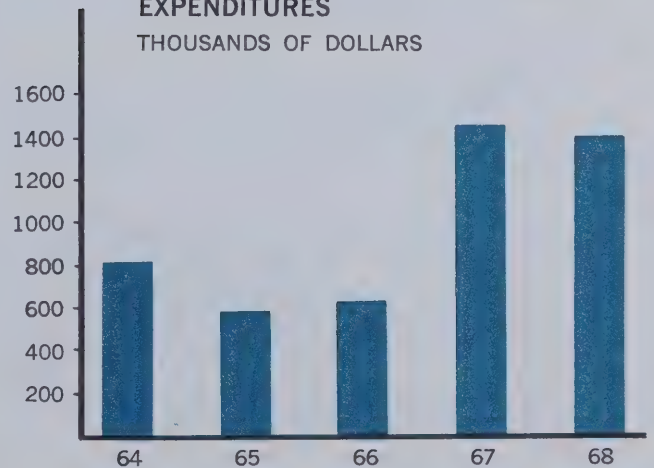
NET OIL PRODUCTION AFTER ROYALTIES

THOUSANDS OF BARRELS



EXPLORATION AND DEVELOPMENT EXPENDITURES

THOUSANDS OF DOLLARS



, 1963, and its subsidiary companies from date of
ary 1st, 1968.

Consolidated Statement of Income

Years ended December 31, 1968 and 1967

	<u>1968</u>	<u>1967</u>
INCOME:		
Crude Oil sales, less royalties -----	\$ 813,705	\$ 564,034
Construction income -----	411,859	—
Investment income -----	93,932	45,096
Supervision, management and sundry -----	66,829	44,005
	<u>1,386,325</u>	<u>653,135</u>
EXPENSES:		
Operating -----	385,789	93,146
General and administrative -----	112,670	82,876
Interest -----	32,324	7,255
Depletion -----	208,338	166,447
Depreciation -----	92,875	26,297
Minority interest -----	50,032	36,904
	<u>882,028</u>	<u>412,925</u>
NET INCOME (Notes 1 and 2) -----	<u><u>\$ 504,297</u></u>	<u><u>\$ 240,210</u></u>

Consolidated Statement of Retained Earnings (Deficit)

Years ended December 31, 1968 and 1967

	<u>1968</u>	<u>1967</u>
(Deficit) beginning of year, as previously reported -----	\$ (200,657)	\$ (136,489)
Adjustment of prior year's income (Note 1) -----	836,892	532,514
	<u>\$ 636,235</u>	<u>\$ 396,025</u>
Restated Retained Earnings beginning of year -----		
<i>Add —</i>		
Net income -----	504,297	240,210
	<u>1,140,532</u>	<u>636,235</u>
<i>Deduct —</i>		
Extraneous items (Note 7) -----	150,550	—
	<u>\$ 989,982</u>	<u>\$ 636,235</u>
RETAINED EARNINGS, end of year -----	<u><u>\$ 989,982</u></u>	<u><u>\$ 636,235</u></u>
<i>The accompanying notes are an integral part of these statements.</i>		

Consolidated Statement of Source and Application of Funds

Years ended December 31, 1968 and 1967

SOURCE OF FUNDS:

	<u>1968</u>	<u>1967</u>
Profit before depletion and depreciation -----	\$ 805,510	\$ 432,954
Increase in long term debt, net of current portion -----	240,000	—
Net proceeds from issue of shares -----	4,652,111	32,271
Proceeds from sale of interest in rights and leases -----	363,970	61,780
	<u>6,061,591</u>	<u>527,005</u>

APPLICATION OF FUNDS:

Purchase of equipment -----	846,378	141,851
Exploration and development -----	1,468,856	1,480,293
Purchase of investments -----	220,556	35,322
Decrease in minority interest -----	33,699	(36,904)
	<u>2,569,489</u>	<u>1,620,562</u>

Increase (decrease) in working capital -----	3,492,102	(1,093,557)
Working capital, beginning of year -----	147,996	1,241,553
Working capital, end of year -----	<u>\$3,640,098</u>	<u>\$ 147,996</u>

The accompanying notes are an integral part of this statement.

Auditors' Report

To the Shareholders

We have examined the consolidated balance sheet of Numac Oil & Gas Ltd. and Subsidiary Companies as at December 31, 1968, and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the companies as at December 31, 1968, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a consistent basis, after giving retroactive effect to the change in accounting for oil and gas exploration costs as explained in Note 1, with which we concur.

EDMONTON, Alberta
March 14, 1969.

WINSPEAR, HIGGINS, STEVENSON AND DOANE
Chartered Accountants.

Consolidated Balance Sheet / December 31, 1968 and 1967 / N

Assets

	<u>1968</u>	<u>1967</u>
CURRENT ASSETS:		
Cash -----	\$ 92,594	\$ —
Short term investments, at cost which approximates market	3,797,999	551,927
Accounts receivable -----	792,007	238,611
Inventory of materials and supplies, at cost -----	50,822	38,663
Prepaid expenses -----	18,154	9,555
	<u>4,751,576</u>	<u>838,756</u>
 INVESTMENTS, at cost, no quoted market value (Note 7)	 354,565	 178,525
	<u> </u>	<u> </u>
FIXED ASSETS, at cost (Note 1):		
Lands, leases and well costs -----	6,116,390	5,032,911
Equipment, furniture and fixtures -----	1,257,983	410,985
	<u>7,374,373</u>	<u>5,443,896</u>
	<u> </u>	<u> </u>
Less —		
Accumulated depletion -----	802,579	602,220
Accumulated depreciation -----	168,039	74,544
	<u>970,618</u>	<u>676,764</u>
	<u>6,403,755</u>	<u>4,767,132</u>
	<u> </u>	<u> </u>
 UNALLOCATED COSTS ON CONSOLIDATION (Note 1)	 148,400	 148,400
	<u> </u>	<u> </u>
 ORGANIZATION AND INCORPORATION COSTS (Note 7) -----	 —	 40,671
	<u> </u>	<u> </u>
	<u>\$11,658,296</u>	<u>\$5,973,484</u>
	<u> </u>	<u> </u>

The accompanying notes are an integral part of this statement.

IAC OIL & GAS LTD. AND SUBSIDIARY COMPANIES

Liabilities

	<u>1968</u>	<u>1967</u>
CURRENT LIABILITIES:		
Bank loan, demand -----	\$ 450,000	\$ 382,001
Payables and accruals -----	601,478	308,759
Long term debt due within one year -----	60,000	—
	<u>1,111,478</u>	<u>690,760</u>
LONG TERM DEBT -----	<u>240,000</u>	<u>—</u>
MINORITY INTEREST IN SUBSIDIARY COMPANY ---	31,319	65,018
	<u>1,382,797</u>	<u>755,778</u>

Shareholders' Equity

SHARE CAPITAL (Note 3):		
Authorized 5,000,000 shares without nominal or par value		
Issued — 4,177,566 shares (3,209,925 shares — 1967)	9,285,517	4,581,471
RETAINED EARNINGS (Notes 1, 2 and 7) -----	989,982	636,235
	<u>10,275,499</u>	<u>5,217,706</u>
	<u>\$11,658,296</u>	<u>\$5,973,484</u>

Approved on behalf of the board:

_____"W. S. McGREGOR"_____*Director*

_____"A. N. MacIVER"_____*Director*

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1968 AND 1967

NOTE 1: ACCOUNTING PRINCIPLES

(a) *Change in Accounting Practice*

Effective January 1, 1968 the Company retroactively adopted the full-cost method of accounting. Under this method all costs incurred in the acquisition, exploration and development of oil and gas reserves are capitalized. Also all profits (or losses) on sale of properties are credited (or charged) to the cost of lease rights. These costs are amortized using the unit-of-production method based upon proven oil and gas reserves.

In prior years lease rentals, cost of unproductive leases surrendered, dry hole costs and overhead relating to exploration and development were charged against income when incurred. Also profits on disposal of petroleum and natural gas rights were taken into income in the year of disposition.

The adoption of the full-cost method of accounting has no material effect on the current year's net income. On the previous basis net income for 1968 would have been \$504,051 and there was a loss of \$64,168 reported in 1967. The retroactive adjustment as it relates to the period from the inception of the Company to December 31, 1967 results in an increase in consolidated net fixed assets and earned surplus of \$836,892. The figures reflected in the financial statements for 1967 have been adjusted for comparative purposes to the full-cost method of accounting.

(b) *Depreciation*

Depreciation of fixed assets is provided on a straight line basis at rates calculated to amortize the costs of the respective items over their estimated useful lives.

(c) *Mining Properties*

All acquisition and exploration costs of mining properties are considered on a project basis and therefore when individual properties are disposed of the costs are not charged to expense and the revenues are not taken into income unless the whole related project is abandoned.

(d) *Principles of Consolidation*

The consolidated statements include the accounts of all companies in which the Company owns more than 50% of the voting capital stock. Where the purchase price of shares in subsidiaries exceeds their net book value the excess has been allocated, except where not practicable, to the appropriate assets and additional depreciation has been provided.

NOTE 2: INCOME TAXES

For income tax purposes, the Companies are entitled to claim drilling, exploration and lease acquisition costs and capital cost allowance (depreciation) in amounts which may exceed the related depletion and depreciation provisions reflected in their accounts. As a result of claiming excess drilling, exploration and lease acquisition costs no income taxes are payable for the year. Expenditures remain to be carried forward and applied against future taxable income in the amount of \$4,666,000 (drilling, exploration and lease acquisition costs \$4,202,000; undepreciated capital cost \$464,000).

The Companies do not believe that it is appropriate to provide for income taxes deferred as a result of claims for drilling, exploration and lease acquisition costs. While this view conforms with general practice in the oil and gas industry and is accepted by accounting authorities in the United States, it differs from the tax allocation basis of accounting recommended by the Accounting and Auditing Research Committee of The Canadian Institute of Chartered Accountants under which the income tax provision is based on the income reported in the accounts.

If the tax allocation basis had been followed for all timing differences between taxable income and reported income, deferred income taxes of \$189,000 (\$57,000 in 1967) would have been provided and net income for the year would have been reduced accordingly. The accumulated income tax reductions relating to all timing differences in the current and prior years amount to approximately \$319,000 at December 31, 1968.

NOTE 3: SHARE CAPITAL

(a) Shares issued during the year

- (i) Prior to June 30, 1968, 533,300 shares were issued at \$4.00 per share upon outstanding Share Purchase Warrants being exercised.
- (ii) A Rights issue in November, 1968 resulted in an issue of 376,341 shares at \$6.00 per share.
- (iii) Under an employee stock option plan dated January 2, 1964, an employee was granted an option to purchase 10,000 shares of the Company at a rate of 2,000 shares per year at a price of \$1.60 per share. During the year the option was exercised to the extent of 8,000 shares and subsequently on January 2, 1969 the option for the remaining 2,000 shares was exercised.
- (iv) The Company purchased all of the outstanding shares of an oilfield construction company for a consideration which included 50,000 treasury shares of the Company valued at \$6.00 per share (market value at date of directors' approval of purchase).

(b) Employee Stock Option Incentive Program

By Directors' Resolution, 60,000 shares of the Company were optioned to senior officers and key employees at prices ranging from \$5.00 to \$6.48 per share. These options are exercisable, as to one-fifth of the total number granted, on June 24 of each of the five years ending with June 24, 1973, at which time all options expire.

NOTE 4: PROVINCE OF SASKATCHEWAN PRECAMBRIAN INCENTIVE PROGRAM

Under the Precambrian Incentive Program, the Government of the Province of Saskatchewan has advanced monies to assist with the financing of mineral exploration work carried out in the province. The advances are repayable without interest from any profits on mineral production from properties on which the eligible exploration work was performed. If no profits are realized, the funds received are not repayable. The Companies are contingently liable to the extent of \$79,964 for their share of the monies received to December 31, 1968.

NOTE 5: OUTSTANDING LITIGATION

A decision was rendered in the Supreme Court of British Columbia on August 5, 1968 in favor of a consolidated subsidiary and another company in their action against two other oil and gas companies. The amount of the judgement is estimated to be substantial but has not yet been determined and therefore no provision for recovery has been made in the accounts.

NOTE 6: REMUNERATION TO SENIOR OFFICERS AND DIRECTORS

In accordance with the provisions of the Companies Act (Alberta), it is reported that the remuneration paid to the senior officers of the Company and its subsidiaries amount to \$88,085 (1967 — \$73,800) and Directors' fees amounted to \$1,548 (1967 — \$400).

NOTE 7: EXTRANEIOUS ITEMS

In conjunction with the change in accounting practice as referred to in Note 1, retained earnings were charged with the write-off of incorporation costs, commission on sale of shares, and goodwill totalling \$121,034 and the write-down of investments totalling \$29,516.



Numac Campsite Uranium City Area

COURTESY IMPERIAL OIL

NUMAC OIL & GAS LTD.